

Other corporate information

Inherited estate of Prudential Assurance

The assets of the main with-profits fund within the long-term insurance fund of PAC comprise the amounts that it expects to pay out to meet its obligations to existing policyholders and an additional amount used as working capital will be used to meet obligations to existing policyholders and any excess acts as working capital. The amount payable over time to policyholders from the with-profits fund is equal to the policyholders' accumulated asset shares plus any additional payments that may be required by way of smoothing or to meet guarantees. The balance of the assets of the with-profits fund is called the 'inherited estate' and has accumulated over many years from various sources.

The inherited estate represents the major part of the working capital of PAC's long-term insurance fund. This enables PAC to support with-profits business by providing the benefits associated with smoothing and guarantees, by providing investment flexibility for the fund's assets, by meeting the regulatory capital requirements that demonstrate solvency and by absorbing the costs of significant events or fundamental changes in its long-term business without affecting the bonus and investment policies. The size of the inherited estate fluctuates from year to year depending on the investment return and the extent to which it has been required to meet smoothing costs, guarantees and other events.

Prudential announced in March 2006 that it had begun a process to determine whether it could achieve greater clarity as to the status of the inherited estate through a reattribution. In June 2008 Prudential announced that it did not believe that it is in the interests of current or future policyholders or shareholders to continue the reattribution process. The with-profits sub-fund (WPSF) has been consistently the top performing life fund in the UK for the past one, three, five and 10 years. Our overriding priority is to maintain the long-term financial security of the WPSF and to continue delivering strong performance for the benefit of our policyholders. The policyholders' share in any potential future distributions is on a 90:10 basis.